



## **U.S. Department of State**

# **FY 2000 Country Commercial Guide: Slovakia**

The Country Commercial Guide for Slovakia was prepared by U.S. Embassy Bratislava, and released by the Bureau of Economic and Business in July 1999 for Fiscal Year 2000.

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# I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at the Slovak Republic's commercial environment, providing economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate numerous reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

Slovakia is a small, open economy strategically positioned in the heart of Europe, characterized by heavy industry and processing of industrial inputs. After its peaceful separation from the Czech Republic in 1993, Slovakia experienced several years of high growth and low inflation, but now growth is slowing and unemployment and inflation are increasing through a fundamental economic transformation delayed by the policies of the previous government. Growth of U.S. exports has been strong and the policy of the Dzurinda government to promote foreign investment has created substantial opportunities. The government offers substantial tax holidays to strategic foreign investors and plans to privatize most remaining state-held firms, including banks and telecoms in the next few years.

U.S. exports to Slovakia reached \$377 million in 1997, putting the United States in 6th place among suppliers of Slovak imports with a 2.9 % share. U.S. imports from Slovakia reached \$151 million, ranking the United States 14th among purchasers of Slovak exports with a 1.4 % share. Slovak levels of import protection are relatively low, although pressures for protection have increased since 1996 due to trade deficits of between \$1 and \$2 billion in 1997 and 1998. Trade plays a very important role in Slovakia's economy and demand for imported investment and consumer goods is rising. Almost 50% of Slovak trade is with the European Union (EU), while about 23% is with the Czech Republic. Imports from Russia are significant, but consist mainly of fuels and raw materials.

Slovak GDP rose by 4.4% in 1998, but is expected to grow only between 1 and 2% in 1999. Up until 1996 imports rose dramatically and have risen steadily since. Exports have grown more slowly than imports. The balance of payments deficit reached more than \$550 million in 1998.

The Slovak Crown is a fully convertible currency, which was floated in late 1998. It recently stabilized after about a 20% devaluation in early 1999. Inflation is more than 10%, but may reach up to 13% by the end of 1999 due to price decontrols and reimposition of an import surcharge. Foreign debt remains at an uncomfortably high level of \$12 billion, but foreign exchange reserves are still adequate to cover three months of imports.

Until 1998, Slovakia and its more successful enterprises had a relatively good reputation among credit rating agencies, but the uncertain political environment last year, the high current account deficit, and the increasing state budget deficit, led Moody's Investor Service to downgrade Slovakia from investment grade Baa3 to the non-investment speculative grade Ba1 in March 1998. Standard and Poor's kept their rating for Slovakia at BBB+ for local currency debt and BB+ for foreign currency debt. The low rate of inflation until recently, a

fairly quick transition towards a market-driven system, and the relatively low indebtedness of the Government led to S&P's decision to keep the existing rating. Other U.S., European and Japanese rating agencies have followed Moody's and S&P by downgrading Slovakia or revising their outlooks negatively.

Privatization in Slovakia under the Meciar government was fraught with corruption, nontransparency, and inefficiency, but the new government has pledged to privatize, in whole or in part, remaining government properties, including the natural gas, telecommunications, and power monopolies, and has stressed its openness to foreign strategic investors in these firms. Small-scale privatization is complete. Between 34 and 49 % of the state telecom monopoly is expected to be privatized by February 2000 and the government should begin privatizing the three large state-owned banks by the end of 2000. The privatization process was non-transparent and highly politicized under the Meciar government, but we see a more positive attitude towards foreign investors in the Dzurinda government. Despite the problems surrounding privatization, more than 85 percent of Slovakia's GDP is now produced by the private sector, including over half of industrial production, one of the highest rates of privatization in the former eastern bloc - and significantly higher than in neighboring Austria

U.S. companies and products have a positive image in Slovakia, and U.S. technology enjoys an excellent reputation. Many Slovaks have relatives in the United States, and most citizens like and respect Americans. U.S. companies may encounter some unofficial preference for European (especially Austrian, German and Czech) business partners as a result of their historic presence in Slovakia, and there could be a tendency to buy from EU companies while Slovakia builds its campaign to become a member of the European Union. This is sometimes balanced by Slovak apprehension that European investors may be interested in acquiring Slovak companies in order to remove competition with their own firms; U.S. investors compare favorably in this light. Slovaks occasionally comment that U.S. companies seem impatient and have a short-term view.

The Slovak economy is characterized by heavy industry and processing of raw materials and agricultural commodities. Many enterprises are just beginning to restructure and need to modernize their equipment and methods. Capital goods, information and communication systems, financial services, environmental products and services, management skills, production processes, and access to Western marketing networks and know-how are among the areas offering potential for U.S. business.

The Slovak market has undergone extensive liberalization since 1989, and progress has been remarkable, if uneven. Understandably, some problems remain. These include lack of transparency in decision-making, bureaucratic delays, inadequate physical infrastructure, developing financial institutions, high intercompany debt, low levels of foreign direct investment, and unfamiliarity with Western business practices. The Slovak economy appears to have reached a nadir in its economic crisis in early 1999, prompting the Dzurinda government to institute an austerity package and temporary protective measures. Among these is a 7% import surcharge that applies to about 80% of imports. This surcharge is scheduled to be reduced to 5% on January 1, 2000, to 3% on July 1, 2000, and should be abolished by January 1,

2001. The government has agreed to reform a cumbersome product certification system that was an obstacle to imports.

Slovak consumers, while not attracted to low-quality goods, are very price-conscious. This tends to be an advantage to producers in Central Europe and the former Soviet Union, and may be a disadvantage to U.S. producers when product transport costs are significant. The Czech Republic holds a preeminent share of Slovak trade because of the unique nature of their relationship (the two countries separated only in January 1993, after 75 years as a unified state). German and Austrian companies enjoy the advantages of proximity and historical familiarity with the Slovak market. Slovakia is working toward membership in the European Union (EU) for which it has already signed an Association Agreement. EU officials have indicated Slovakia may be invited to join the first group of countries negotiating entry at the Helsinki Summit in December 1999. Slovakia is in the final stages of negotiating its membership in the Organization for Economic Cooperation and Development (OECD). Moreover, Slovakia is trying to develop its markets to the east, although the economic crisis in Russia and Ukraine is making it difficult to increase exports to those regions.

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## II. ECONOMIC TRENDS AND OUTLOOK

### A. Major Trends and Outlook

Over the long-term, Slovakia has the potential to be one of Central Europe's top performers. All the ingredients -- an educated workforce, a strategic location in the heart of Europe, an improving infrastructure, relatively open access to European Union markets, and an increasing number of companies (both foreign and domestic) that can compete in international markets -- are in place to ensure that Slovakia can be a successful member of the European and world economic system. In the short-run, however, an inability to consolidate several years of economic recovery has brought Slovakia into an economic downturn.

Weaknesses in Slovakia's economic performance became more visible in 1997 and 1998, and have culminated in a near-collapse in early 1999. Indeed, it is unlikely that Slovakia will be able to maintain strong economic growth over the next two years and it seems likely that Slovakia has entered a brief recession period characterized by a return to double digit inflation, higher levels of trade protectionism, and the need for international financial assistance.

There are a number of areas that have contributed to an underlying weakness in Slovakia's economic performance. They include:

- low levels of foreign direct investment;

- a banking sector in which more than 30 percent of loan portfolios are classified;
- a privatization process that has largely excluded foreign investors and brought little new capital into former state enterprises;
- high intercompany debts and declining tax and social support payments;
- ineffective bankruptcy procedures;
- corruption and organized crime;
- an underdeveloped capital market;
- a burdensome foreign debt;
- a fiscal deficit running over 5 percent of GDP that has been financed largely by short-term borrowing;
- A HEAVY CURRENT ACCOUNT DEFICIT; AND
- a small business sector stymied by many of the conditions mentioned above.

The Slovak Republic recorded several years of impressive economic progress after a difficult first year of independence in 1993. Real growth was higher than 6 percent annually from 1995-1997 before falling to 4.4 percent in 1998. Inflation was in single digits for the same period, and the consumer price index rose just 5.6 percent in 1998. However, these trends disguised a failure to deal with major structural weaknesses in the economy, such as a financial sector dominated by weak, state-owned banks, an industrial sector plagued by widespread insolvency and limited foreign investment, subsidized energy prices, and other problems.

The government of Prime Minister Mikulas Dzurinda faced two major economic tasks when it assumed power on October 30, 1998. Its first priority was to deal with the severe macroeconomic imbalances that threatened the economy, chiefly the high current account deficit but also a worsening fiscal deficit. At the same time, economic policymakers realized that a multitude of structural issues also posed impediments to growth.

The current account deficit was 10.1 percent in 1998, following equally high deficits of 9.7 percent in 1997 and 11.2 percent in 1996. Export growth was strong in 1998, at 16 percent, but import growth was even higher, at 16.4 percent. Gross foreign debt increased to USD 11.8 billion, and, more important, net foreign debt was up by USD 2.2 billion during 1998.

Because the inflow of foreign capital was not sufficient to offset the current account balance, the National Bank of Slovakia (the central bank) was forced to draw on its reserves to support the fixed exchange rate. Reserves fell by about a quarter, or USD 1 billion, during August and September, and on October 1, just after the September 25-26 elections, the central bank abandoned the peg and permitted the Slovak crown to float. The crown has fluctuated moderately since then and is down about 20 percent against the former central parity of 34.5 crowns.

The Dzurinda government reacted to these financial pressures by promising to hold the overall fiscal deficit for 1999 to 2 percent of GDP (compared to an estimated 6 percent in 1998), by freezing public sector wages, and by increasing prices for regulated goods and services, such as electricity, heat and rail passenger fares. However,

a late April IMF mission predicted that the overall deficit would reach 5 percent and criticized monetary policy as too loose under the circumstances. The central bank reacted on May 13 by announcing that it would end special direct financing of the state budget deficit.

Following a 7.9 percent slide in the value of the crown over one week, the government announced a second austerity package on May 20. This package included re-imposition of an import surcharge of 7 percent (declining to 5 percent in January, to 3 percent in July, 2000 and to zero by 2001), an increase in the lower rate of the two-tiered VAT, from 6 to 10 percent, and a second round of increases in regulated prices. The government now hopes to hold the overall fiscal deficit to about 3 percent of GDP and the current account deficit, to a range of 5-6 percent of GDP. The measures approved by the Dzurinda government on May 31 reassured financial markets, and the crown generally has been stable against the Euro.

#### B. Structural adjustment

Economic policymakers in the Dzurinda government have consistently pointed to the need for structural reforms in the economy if the Slovak Republic is to embark on a period of sustained growth. It is negotiating with the World Bank for an Enterprise and Financial Sector Adjustment Loan that would be used to address the two most critical priorities: a weak financial sector dominated by troubled, state-controlled banks, and an industrial sector plagued by insolvency. It also plans to privatize many of the remaining state-owned enterprises, either wholly or in part.

#### C. Financial sector

The weakness of the financial sector has been noted for years, but the government of former Prime Minister Meciar took no action to reform it. The sector is characterized by the presence of three state-owned banks that have heavy portfolios of non-performing debt. The Dzurinda government plans to sell off the banks, either wholly or in part, and this course will have significant budgetary implications. Privatization is regarded as a high priority because the banks do a poor job of financial intermediation, leading to extremely high interest rates for commercial loans.

The Vseobecna Uverova Banka, or General Credit Bank (VUB), is the country's largest commercial bank, with about 20 percent of total assets, or SKK 161 billion. It is 51-percent state owned. The bank, now under new management, lost SKK 1.79 billion crowns in 1998. Bank management has said that as much as 50 percent of its SKK 113 billion in loans have problems. The Finance Ministry has announced plans to sell the state's entire stake to a strategic investor by the third quarter of the year 2000.

Slovenska Sporitelna, or the Slovak Savings Bank, is the country's largest bank with assets of SKK 168.6 billion at the end of 1998, about 21 percent of total sector assets. It is 91 percent owned by the National Property Fund. As the country's primary savings bank, it holds about 33.5 percent of customer deposits, or SKK 141 billion. Its loan portfolio is significantly smaller than VUB's, at SKK 70 billion, of which classified loans account for SKK 31.4 billion, or 45 percent.

The bank's capital adequacy ratio dropped to 6.73 percent by the end of 1998, but the bank has been granted a special exception to the minimum ratio of 8 percent. The issue of the privatization of the Savings Bank has not been resolved within the government. Finance Minister Brigita Schmognerova, of the Party of the Democratic Left, has proposed bringing in a strategic investor but wants the state to maintain a majority stake in the bank, an approach opposed by others within the governing coalition.

The Investment and Development Bank (IRB) has been under forced administration by the central bank since December 1997, when it experienced severe liquidity problems. The government hopes to sell the bank to a strategic investor this year, but the effort has been delayed by differing views over how to proceed. The government-controlled Slovak Insurance Company owns a majority of the bank's shares.

The financial sector also includes a number of privately controlled banks, including several with Austrian, U.S., Dutch and German ownership. These banks, which control more than a third of total assets, are financially healthy.

#### D. Industrial sector

For analytical purposes, it is useful to view Slovakia's industrial sector as two distinct parts. Major multinationals such as Volkswagen, Emerson Electric, Whirlpool, Sony and Alcatel have acquired many Slovak companies and turned them into highly profitable exporters.

However, the Slovak controlled industrial sector is deeply troubled. While privatization is widespread, with the share of the private sector in GDP at more than 85%, insolvency and inter-company debt are widespread. Of the 40,000 enterprises that submitted data in 1997, half sustained losses, and 48 percent of total losses were reported by the manufacturing sector. The current owners obtained many of the companies on favorable terms, either through coupon privatization or through the Meciar government's practice of direct sales to selected entrepreneurs at so-called symbolic prices. Many suffer from a variety of ills: lack of capital; asset-stripping, or tunneling, as it is called in Slovakia; weak distribution or marketing, a reliance on low value-added intermediate goods, and other problems. This weakness in the industrial sector leaves Slovakia exposed to downturns in overseas markets, and deters investments that otherwise would lead to sustained growth and increased employment.

The government anticipates addressing these issues in cooperation with the World Bank. Generally, the attempt to restructure the industrial sector will involve two approaches: transferring bad loans out of the banks into the hands of those who can use them as leverage to effect workouts of troubled firms, while the second is a reform of bankruptcy and other parts of the legal framework to facilitate workouts. However, it is also true more and more industrial firms are shutting down and liquidating, driving the recent rapid growth of unemployment.

#### E. Strategic privatization

The Meciar government followed a policy of not privatizing "strategic" companies, including natural monopolies, defense firms, banks, and a handful of other companies. The Dzurinda government has approved a new law that would permit privatization of such companies, wholly or in part, at government discretion. This law still awaits parliamentary approval. Such approval may be slowed by continuing differences of opinion within the government coalition over the extent to which certain properties, such as the Slovak Gas Company or the Slovak Savings Bank, should be privatized, with the Party of the Democratic Left generally favoring an approach that would keep a majority of shares in such companies under government control.

The Ministry of Transport, Posts and Telecommunications is moving ahead with the sale of a 34-49 percent stake in Slovak Telecommunications, which will lose its monopoly on public voice service at the end of 2002. A handful of other companies also are likely to be privatized soon. There is no schedule yet for privatization of any part of the natural gas or electric power monopolies.

#### F. Other issues of structural reform

The Dzurinda government faces a host of other structural reform issues as it seeks to put the economy on the path to sustainable growth. Taxes are among the highest in Europe. The corporate profit tax is 40 percent, and payroll deductions generally add about 50 percent to wage costs. The government has pledged to reduce tax rates once the current fiscal crunch is past, but it also faces the need to cut the size of government to ease pressure on the budget. The government pension fund is now running at a current deficit. Energy prices for households are not yet completely deregulated, and price-setting authority still rests with the Finance Ministry.

#### G. Economic trends

As a part of the former Czechoslovakia, the Slovak Republic was a founding member of the World Trade Organization (WTO). Slovakia is a member of the Central European Free Trade Agreement (CEFTA). In addition, the Czech and Slovak Republics created a customs union after the split of the Czech and Slovak Federative Republic.

In 1998, for political reasons, Slovakia was excluded from the first wave of candidates for accession to the European Union (EU), but it still enjoys all of the tariff and other privileges of an associate member of the EU. The new government that took office in October 1998 has declared EU accession to be one of its highest priorities, and it has mounted a campaign to join the first group of potential new members at the EU summit in Helsinki later in 1999.

In addition, the Slovak government hopes to enter the Organization for Economic Cooperation and Development in the first half of 2000. Slovakia now has the status of an observer in the OECD and has been an active participant.

Growth was 6.5 percent in 1997 but slowed to 4.4 percent last year. Most observers expect growth in the range of 1-2 percent for 1999, despite government projections of 3 percent. In real terms, Slovak GDP was SKK 717.4 billion in 1998, including fourth quarter growth of only

0.5 percent, the lowest since 1994. In the first quarter of 1999, GDP grew at an annual rate of 1.8 percent.

The overall fiscal deficit (defined by the IMF as budget and extra-budgetary spending) reached SKK 43.2 billion, or 6 percent of GDP in 1998, up from SKK 28.6 billion, or 4.4 percent of GDP in 1997. The budget deficit of the central government in 1998 was 19.2 billion, up from SKK 12 billion in 1997. This trend contrasted with the period 1994-1996, when Slovakia's fiscal performance was quite good, with small deficits in 1994 and 1996 and a small surplus in 1995.

The state budget for 1999 projects an overall fiscal deficit of SKK 16 billion, including just SKK 1 billion in off-budget spending. However, most observers, including the IMF, were predicting an overall fiscal deficit of SKK 39 billion. On May 31, the Slovak government responded by approving a package of measures designed to achieve macroeconomic stabilization. They are expected to boost revenues by SKK 17.2 billion and cut expenditures by SKK 2 billion this year, thereby reducing the fiscal deficit by some 20 billion crowns. However, government officials say that additional cuts of some SKK 4.5 billion would be necessary to meet the SKK 16 billion target.

The Slovak crown is convertible for current account purposes. The National Bank of Slovakia abandoned a fixed exchange regime on October 1, 1998, and allowed the crown to float. Recently, the crown traded at 45 relative to the Euro, and has lost about 6.5 percent of its value this year and about 20 percent since the central bank abandoned the peg. The all-time low against the Euro was 47.500 in May, before the government adopted a new package of austerity measures. The crown recently appreciated to 41 against the dollar.

For the first half of 1999, Slovakia's foreign trade deficit reached SKK 27.3 billion, or 7 percent of GDP on an annualized basis, down SKK 13 billion from 1998. Imports increased on an annualized basis by 1.6 percent, to SKK 223.9 billion, while exports were SKK 196.7 billion, up 9.3 percent on a year-to-year basis. The government's target for the year-end trade deficit is 6-7 percent of GDP, down from last year's 11 percent.

Foreign trade turnover of the Slovak Republic increased from SKK 426.2 billion in 1994 to SKK 831 billion in 1998, or by 92 percent. Trade with OECD countries maintained a stable level of 80 percent of total turnover over the last five years. Trade with EU countries has been developing more dynamically, to 50 percent of foreign trade turnover last year, up from 34.2 percent in 1994. Almost 90 percent of exports were destined for OECD countries in 1998, while imports from them reached 81 percent. The largest trade partners of Slovakia are Germany (25.87 percent of imports and 28.9 percent of exports), the Czech republic (18.45 percent and 20.28 percent, respectively), Russia (9.94 percent and 3.45 percent) and Italy (6.49 percent and 5.98 percent).

Slovakia's net foreign indebtedness (the difference between gross foreign indebtedness and foreign assets) was USD 4.1 billion at the end of 1998, up USD 2.2 billion from 1997. Gross foreign indebtedness, which comprises liabilities of the National Bank of Slovakia, the government, commercial banks, and the corporate sector, grew by USD 1.9 billion to USD 11.8 billion over 1998. Foreign assets, including the

foreign exchange reserves of the central bank, commercial banks and the corporate sector, totaled USD 7.7 billion. At the end of 1998, the official indebtedness of the Slovak government and the central bank was USD 2.407 billion, while the indebtedness of the corporate sector reached USD 9.293 billion and the debt of municipalities, USD 56 million. Of total foreign indebtedness, long-term debt accounted for 60 percent. Because the National Bank of Slovakia, effective April 1, canceled a rule that required commercial banks to hedge their foreign exchange liabilities, gross foreign indebtedness is expected to fall by about USD 2 billion, to USD 10.0 billion in 1999. (Banks had artificially inflated their balance sheets to comply with the rule.)

Gross debt per capita reached USD 2,191 at the end of 1998, compared to USD 1,867 a year earlier.

Slovak long-term foreign currency sovereign and senior unsecured debt carries a BB+ rating from Standard&Poor's, while the long-term local currency sovereign and senior unsecured debt is rated BBB+. The agency affirmed its negative outlook for Slovakia in March. Moody's Investors Services confirmed the Bal long-term foreign currency ratings, but changed its outlook from stable to negative, as well. Both rating updates were announced before the Dzurinda government in May approved new austerity measures.

Despite the depreciation of the crown, 1998 inflation was quite moderate. By the end of 1998, the year-on-year increase of consumer price index as of December 31, 1998 reached 5.6 percent, while the average 1998 inflation was 6.7 percent, up from 6.1 percent in 1997. Slovakia was generally one of the most successful Central European countries in taming inflation, but this data reflected artificially low prices for electricity, gas, transport and other public goods, the prices of which are still set by the Ministry of Finance. The net inflation target for 1999, which excludes changes in government-regulated prices and the impact of food price changes, is expected to be in a range of 6-7.5 percent. Sharp price increases announced by the government for this year likely will push year-on-year consumer price inflation to a range of 13.5-15.5 percent in 1999, while average inflation should be between 10 percent and 11 percent.

Unemployment in Slovakia has increased sharply from the beginning of the economic transformation,. To some extent this is explained by the sharp recession that hit the defense industry, previously a major employer in the Slovak Republic. Unemployment increased by more than 2 percentage points over 1998, to 15.6 percent by year-end. In June 1999, unemployment broke an all-time high of 17.68 percent, when measured from disposable unemployed, for a total of 500,000 unemployed. Because many defense companies were located in more remote regions of Slovakia, the rate of unemployment varies significantly across individual regions. Unemployment in certain regions is higher than 30 percent. In Bratislava, it is less than 5 percent. Long-term unemployment has also been very high. The average length of unemployment reached in the middle of 1999 some 12.9 months.

#### H. Principal Growth Sectors

Principal growth sectors in Slovakia include infrastructure, information technology, pharmaceuticals, industrial equipment,

audiovisual equipment and services, chemicals, business services and tourism.

#### I. Government Role in the Economy

The private sector accounts for more than 85 % of GDP according to official figures, among the highest such figures in central and eastern Europe. The Government provides some subsidies to industry and transfers about one percent of the national budget to local governments. The Ministry of Finance still sets many prices, including the price of energy to consumers. Several major banks and natural monopolies are still government owned.

#### J. Balance of Payments Situation

Last year's current account deficit was SKK 72.570 billion, or 10.1 percent of GDP, up SKK 7.713 billion over 1997, while the foreign trade deficit was SKK 80.793 billion, up 11.615 billion SKK, or 18.2 percent over 1997. Exports increased by 16 percent in 1998; however, it was not sufficient to offset a 16.6 percent rise in imports. The capital and financial account remained in surplus, up from SKK 58.832 billion in 1997 to SKK 61.525 billion in 1998. The balance of services reported a modest surplus of SKK 701 million, down from SKK 2.536 billion SKK in 1997. The interest account deficit increased sharply, from SKK 1.336 billion in 1997 to SKK 5.421 billion in 1998.

#### K. Infrastructure Situation

**Highways:** Slovakia has a good network of roads, but only two-lane highway or local roads cover most of the country. Only the distance between Bratislava and Trencin, Bratislava and the Czech and Austrian border, and short stretches near Liptovsky Mikulas and Kosice are covered by multi-lane highways, totaling 280 km. Overall, there is 36,000 km of paved road. The Government intends to build an extensive network of new roads, including 660 km of multi-lane highway, by 2005. By the year 2000 the North-South highway network should connect Poland, Austria, Hungary and the Czech Republic.

**Railways:** Slovakia has 3661 km of standard-gauge track; all large and medium cities are linked by rail. There are an additional 154 km of narrow- and broad-gauge track. Approximately 100 million passengers and 60 million tons of goods are transported annually. Development plans call for modernization of the railway network and upgrading of track to increase speed to 140 km/hr (120 km/hr in mountainous areas). Among the major development projects is modernization of the Bratislava-Zilina-Kosice connection (USD 1.2 billion).

**Air:** Slovakia's major airport is located in Bratislava, although many business travelers use Vienna's Schwechat airport, only 40 km from Bratislava. Other airports are in Kosice, Poprad, and Sliac. Domestic air travel is difficult, although a number of small carriers have established limited service. Partly because of Bratislava's proximity to Vienna (60 km), there are few international flights to or from Bratislava. Slovakia and Austria have agreed to build high-speed rail links between Bratislava and Schwechat Airport early in the next century.

Telecommunications: Slovakia has 1.3 million telephone lines installed, or 25 lines per 100 persons. Much of the equipment has been modernized, work has been done on installation of a digital overlay network, and the Government's goal is to install a half-million lines per year to reach a penetration rate of 35 per 100 by the year 2000. The mobile analog telephone network has over 40,000 subscribers and is growing rapidly. In 1998 a digital Global Service Mobile (GSM) network had over 320,000 subscribers and is growing extremely rapidly.

Utilities: Total installed capacity of Slovak power plants in 1997 was 7,130.74 MW, but this is about to change remarkably in 1998. Approximately 28.8 percent of the 1997 capacity was from nuclear power, 39.1 percent from hydropower and the remainder from coal- or gas-fired plants. In terms of generation, 51 percent was nuclear, 20.3 percent hydropower and 28.7 percent from other domestic sources.

The existing nuclear plant at Jaslovske Bohunice is of a Russian design considered inherently unsafe by nuclear experts, but it has been extensively upgraded and is considered both by the International Atomic Energy Agency and the Slovak Nuclear Regulatory Commission to be safe. The two oldest reactors are currently scheduled for shutdown between 2005-2010. The first unit of the new nuclear power plant at Mochovce came on line in late 1998, and the second reactor is being brought into operation. There is significant opposition to these nuclear plants in neighboring Austria, where the environmental movement is very influential.

#### L. Equity and Bond Markets

The Slovak equity market is organized by the Bratislava Stock Exchange (BSSE) and RM-System Slovakia, a private company focused on public trading in electronic form (Slovak version of NASDAQ). Security trading is regulated by the Securities Act. A security may assume the pattern of a documentary security (physical document), or a book-entered security (dematerialized, an entry in the records). It can be issued in the form of a bearer security, security to order, and registered security (i.e. to name). Only a legal person with an appropriate license may trade in securities. A securities dealer may only assume the form of a joint stock company. All securities issued in Slovakia are registered in the Central Securities Registrar, a legal entity established by the Finance Ministry.

The Slovak equity market performed unimpressively in 1998. Turnover on BSSE reached only USD 8.497 billion, up 82 percent from 1997. However, the total number of securities transferred through the BSSE decreased from 158,257,409 units in 1997 to 99,173,944 units. Volume of shares traded fell to 45 percent of the 1997 volume. Government-issued bonds achieved over a 65 percent share in the Stock Exchange's turnover.

The share market in 1998 witnessed a steep fall, not only in terms of liquidity. The total volume of share trades amounted to USD 1.059 billion, down 54.9 percent compared to 1997. The Slovak Equity Index (SAX) consistently lost points during the whole year and closed at 94.0, 6 points below its basic value from September 14, 1993, which represents a 50.2 percent decline on the yearly basis in dollar terms. There was not a single issue of shares that would have been traded on average once a day. The market value of all share issues traded on the

BSSE amounted to USD 4.318 billion as of December 31, 1998, a 17 percent average decrease in comparison with the end of 1997.

In contrast, trading of bonds on the BSSE improved substantially last year. The total volume was USD 7.438 billion in 1998, or almost triple the 1997 figures. In spite of that, liquidity remained low due to the acceleration of technical trades. Government paper dominated the market. The difficult financial situation of the government put great pressure on the average accepted yield of new T-bond issues and heightened demand. Average yields increased, and at the end of May 1999 exceeded 28 percent. Although the successful Eurobond issues (worth USD 970 million) eased the pressure for a while, September yields were back up to 30 percent. The corporate and bank bonds component of the Slovak Bonds Index (SDX) recorded a 17.4 percent annual increase to 127.33 percent of the nominal value of its portfolio, offering a 15.24 percent average yield to maturity on last day of trading. The government bonds component closed 1998 at 127.24 percent of the nominal value, offering an 18.14 percent average yield to maturity. As of the end of the year, the market value of all bond issues traded on the BSSE was USD 3.409 billion, up 29.3 percent from 1997.

As of the end of the year 1998, 981 issues were registered on BSSE's markets - 14 share issues and 61 bond issues on the listed securities market; 40 share and 70 bond issues on the registered securities market, and 779 share issues and 17 bond issues on the free market.

On June 3, 1999, the Slovak Parliament approved long-awaited amendments to the Securities Act and Commercial Code that will force holders of bearer shares to register them. This will allow investigators and tax authorities to trace company ownership and penetrate the veil of anonymity that obscured the details of many important privatizations. All former issuers of bearer shares must comply with the new law by January 31, 2000, or face invalidation of the shares. The new law is part of the government's campaign to improve transparency in preparation for OECD and EU membership.

### III. Political Environment

#### A. Nature of Political Relationship with the United States

The United States supports the Slovak Republic's efforts to continue its transformation into a democratic, prosperous society that is fully integrated into European and trans-Atlantic security and economic structures. Bilateral relations have improved significantly since the Slovak people chose a new, more reform-minded government in the 1998 parliamentary elections. The new government places a high priority on pursuing NATO membership and Slovakia has acted as a de facto ally throughout the Kosovo crisis. The United States has an active military cooperation program with Slovakia, an agreement with the GOS allowing U.S. training operations on a Slovak airbase in Malacky, and is engaged in cooperation with several ministries and the NGO sector through U.SAID funding assistance programs.

The Slovak Embassy in the United States is located temporarily at 2201 Wisconsin Avenue, N.W., Suite 250, Washington D.C. 20007 (tel: 202-965-5161, fax: 202-965-5166). The Slovak Government also operates a commercial office in New York.

## B. Major Political Issues Affecting the Business Climate

The September 1998 parliamentary elections resulted in a new coalition government, led by Mikulas Dzurinda, which is committed to democracy and market reform. The Dzurinda government has declared its main goals to be the return of Slovakia to the rule of law, economic stabilization, a more responsive approach to citizens' problems, a reduction in organized crime and official corruption, and integration into Euro-Atlantic structures. Further, Slovakia fulfilled an important requirement for entrance to EU accession talks when it held its first direct presidential elections in May 1999. Slovak citizens rejected former PM Meciar, voting in Rudolf Schuster, a candidate who is viewed favorably in the West. Slovakia remains optimistic about soon joining the first group of countries negotiating for EU accession.

The new government is attempting to solve some of the problems it inherited from the previous government, including ensuring the rights of ethnic minorities within Slovakia. The institution of a minority language law in July 1999 fulfilled the final political criterion necessary for Slovakia to begin accession talks with the EU. Dzurinda's government also established a government office committed to solving problems faced by ethnic minorities, particularly the Roma.

The Dzurinda government had difficulty agreeing on a united economic policy due to the governing parties' wide spectrum of economic views. Despite this hurdle, the government was able to create and implement an austerity package acceptable to all governing parties. It is evident that the coalition partners place higher priority on the preservation of the government than on their individual interests.

The new government has indicted several political officials who allegedly committed crimes during the previous regime and other investigations are continuing. Former Slovak intelligence (SIS) director Ivan Lexa was imprisoned on charges that he and his institution were directly involved in the abduction of the former president's son, Michal Kovac Jr., in 1995. Although Lexa was released from prison on July 19, the investigation continues. Several other former SIS officers are being investigated in connection to the same crime. Former Interior Minister Gustav Krajci has been charged for thwarting the May 1997 referendum and is under investigation. With his newly assumed presidential powers, PM Dzurinda cancelled the amnesties granted by former PM Meciar which pardoned those involved in the 1995 kidnapping and obstructing the May 1997 referendum mentioned above. The Constitutional Court, however, ruled in July 1999 that Dzurinda did not have the right to cancel the amnesties.

Corruption and organized crime remain a significant problem, despite limited government efforts to eliminate them. Slovakia has ratified the OECD anti-bribery convention, but still needs to ensure effective implementation of the law. Further, the World Bank will conduct a survey on the scope and effects of corruption in Slovakia.

## C. Brief Synopsis of Political System, Schedule for Elections, and Orientation of Major Political Parties

Slovakia is a parliamentary democracy. The Prime Minister is the head of government and serves a four-year term; the president, a ceremonial office with limited powers, is the head of state and serves a five-year term.

Slovakia held parliamentary elections in September 1998 and a coalition government composed of the Slovak Democratic Coalition (SDK), Party of the Democratic Left (SDL), Party of Civic Understanding (SOP) and Party of the Hungarian Coalition (SMK) was able to defeat the previous government composed of the Movement for a Democratic Slovakia (HZDS), Slovak National Party (SNS) and the Association of Slovak Workers (ZRS). Election results gave the HZDS 43 seats in parliament, the SDK 42 seats, the SDL 23 seats, the SMK 15 seats, the SNS 14 seats and the SOP 13 seats.

The first direct presidential election held in May 1999 resulted in former Kosice Mayor Rudolf Schuster defeating former Prime Minister Vladimir Meciar by a margin of 57 to 43 percent. The next parliamentary elections are not scheduled until September 2002 and the next presidential election will be held in May 2004. Although opposition parties have been calling for early elections, it is unlikely that the governing coalition will dissolve. The opposition HZDS and SNS continue to be active, but have lost credibility with many citizens, particularly young people and those with a higher level of education.

#### IV. MARKETING U.S. PRODUCTS AND SERVICES

##### A. Distribution and Sales Channels

During the first privatization wave, 98% of retail outlets were privatized. Single-product wholesale outlets existed in Slovakia before 1989, but the subsequent disintegration of this system caused a gap in the distribution network. The wholesale business is only now coming into existence.

The most significant marketing area in Slovakia is Bratislava and its surrounding area, followed by Kosice, Trencin, Zilina, Poprad and Nitra. Nitra is especially important for distribution of foodstuffs and agricultural products. The most developed distribution is in western Slovakia; density continuously decreases to the east.

The only significant network of supermarkets is Tesco. The British company is one of the largest foreign investors in Slovakia (approximately \$65.5 million), having taken over (from Kmart) and modernized a chain of Slovak stores. The Austrian supermarket chain Billa has entered the market and is expanding.

##### B. Use of Agents/Distributors; Finding a Partner

The Slovak Commercial Code closely follows German and EU legislation. It recognizes agents, commission merchants, and brokers (who are not obliged by contract).

There are a wide variety of import/export companies in Slovakia. They may be broadly divided between traditional foreign trade companies inherited from the previous communist regime -- large organizations with know-how, capital resources and experienced personnel, and newly established small companies, emerging to compete in a turbulent business environment.

Foreign business is very attractive for Slovak entrepreneurs. A good and common way to find a local representative is to advertise in a newspaper. When choosing an agent/partner, it may help to bear in mind the advantages of larger, well-established companies as smaller companies often lack capital resources. However, this should be treated on a case-by-case basis.

The U.S. Department of Commerce's Commercial Service provides Gold Key and Agent/Distributor Services to American companies seeking potential business in Slovakia. To obtain more information about the services, including fees, please contact Commercial Service Bratislava (see Appendix E) or a Department of Commerce office in the United States.

#### C. Franchising

Franchising in Slovakia include hotels, fast food operations, petrol stations, and services. Slovak legislation is similar to EU legislation, but there is no Slovak legislation specific to franchising. Franchising agreements are treated as commercial contracts and regulated by the commercial code. American franchises in Slovakia include McDonalds and Pizza Hut.

#### D. Direct Marketing

Direct marketing exists in Slovakia, but legislation for consumer protection needs to be developed. Consumers have complained about unfair or misleading practices of some companies. American direct marketing companies in the Slovak Republic include Amway, Avon and Herbalife.

#### E. Joint Ventures/Licensing

Legislation allows joint ventures and licensing. Licensing is less common than in Western countries. Slovak companies are rarely prepared to sell licenses abroad, and may not always understand the implications of licensing when first approached. Licensing is governed by the Commercial Code.

#### F. Establishing an Office

As specified by the Slovak Commercial Code, the following forms of business can be established: branch office of a foreign company, joint-stock company, limited liability company, limited partnership, unlimited partnership, cooperative, silent partnership, and association. All must be registered in the Slovak Commercial Register. Apart from branch offices, silent partnerships and associations, all of the above are Slovak legal entities.

The following procedures and documents are required for company registration: (a) lease contract for premises, (b) approval of the

office/company's location by local authorities, (c) Slovak bank account, (d) trade authorization from the local trade authority, and (e) satisfaction of minimum capital requirements. In the case of offices headed by foreign nationals, a long-term residence permit is required.

The most common option for foreign companies is the limited liability company, because it is simplest to establish. One hundred percent foreign ownership and full repatriation of after-tax profits are allowed. One or more (up to fifty) shareholders may form a limited liability company (s.r.o.). Basic total capital must be at least 200,000 SK (\$4,500) with minimum participant deposit of 30,000 SK each. A supervisory board is not required, but may be established. Non-monetary contributions must be valued by an official appraiser, and for certain contributions two valuers are required. At least 30% of each partner's deposit and all non-monetary contributions must be paid up before the s.r.o. may be entered in the Commercial Register, with the total value of these deposits amounting to at least 100,000 Sk. If the s.r.o. is founded by a single entity, the foundation capital must be paid up in full. Application for entry in the Commercial Register must be made within 90 days of foundation or within 90 days from delivery of trade license.

#### G. Selling Factors/Techniques

Sunday shopping and round-the-clock shopping are permitted under Slovak law. The usual retail hours are from 9:00 a.m. to 6:00 p.m., excepting grocery stores which open at 6:00 a.m. and close at 6 or 7:00 p.m. Most stores close at 12:00 p.m. on Saturdays and are closed all day on Sundays.

Promotional techniques applied in Slovakia are not developed to U.S. or West European standards. There are some customer protection associations and funds, but promotional techniques (e.g., coupons, small gifts, lotteries) are not yet regulated by law.

#### H. Advertising and Trade Promotion

Many companies, both Slovak and foreign, specialize in advertising. They vary considerably in quality. The most commonly used media include newspapers, radio and TV. Private radio offers advertising in urban areas near Bratislava, Dubnica, Nitra, Poprad, Zvolen and Kosice. Use of billboards is significant especially in cities and along main highways. Major newspapers and business journals include: Narodna Obroda, SME, Hospodarsky Noviny, Trend and Profit. The only English language newspaper is the Slovak Spectator. There are two state-owned television stations and two privately owned television stations (with extensive coverage) in Slovakia.

Posters are traditionally used for advertising in Slovakia. They can be found in post offices, telephone booths, public transportation, outdoor pillars, and along public routes. There is minimal formal consumer protection, but companies are well advised to incorporate ethical principles into advertising strategies, as Slovak consumers may object to advertising perceived to be unethical.

#### I. Pricing Product

Average per capita monthly income in Slovakia is \$266. Slovakia is still a low to medium-priced country although prices and wages are gradually increasing. Price is a key consideration for most consumers.

There is a gap between prices in urban and rural areas that varies depending on products and services. Most food prices remain well below Western levels. In large cities, prices in some retail stores, especially for imported goods, may exceed those in the United States or Western Europe. Price liberalization began in 1991 and is defined by Act No. 526/1990 Coll. on Prices. Retail price growth was 6.9% in 1998.

#### J. Sales Service/Customer Support

Foreign and domestic entities must provide post-sale services, especially for technical products. There is no legal requirement that a local company (registered in Slovakia) provide the service, but it must be able to arrange it for the customer either within Slovakia or abroad.

#### K. Selling to the Government

Slovakia (as a successor to Czechoslovakia) is a founding member of the General Agreement on Tariffs and Trade (GATT) and an original signatory to the World Trade Organization (WTO). The Slovak Government is not a signatory to the GATT Agreement on Government Procurement, but complaints from U.S. bidders on Slovak Government procurements have been few. Supplies of equipment to the Government are based on letter of invitation.

#### L. Protecting Your Product from IPR Infringement

Slovakia is a successor to conventions signed by the former Czechoslovakia, e.g., the Bern, Paris, Stockholm, Madrid, Nice, Lisbon, Locarno, Washington, Strasbourg, and Budapest conventions. Slovak laws and regulations remain broadly similar to those inherited from Czechoslovakia and are compatible with Western European legislation. Slovakia is a member of the World Intellectual Property Organization (WIPO), but U.S. pharmaceutical companies have complained about patent infringement in Slovakia.

#### M. Need for a Local Attorney

A number of law firms in Slovakia are able to conduct business in English; some Slovak firms are familiar with U.S. law, and a few U.S. firms have opened offices in Slovakia. More detailed information can be obtained from the Chamber of Commercial Lawyers of Slovakia (address: Farska 27/2, 010 01 Zilina; tel.: +421/89 622647, fax: 47482) and/or the Chamber of Advocates (address: Kolarska 4, 813 42 Bratislava; tel.: +421/7 52961536, fax: 52961554). U.S. companies looking for a list of English-speaking attorneys should contact the Commercial Service office in Bratislava.

### V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

## A. Best prospects for goods and services

All figures are in millions of U.S. dollars unless otherwise stated. Our rank order of "Best Prospect" sectors was calculated net of exchange rate effects. The Slovak Crown depreciated considerably during the first half of 1999.

Name of Sector: General Industrial Equipment  
 Rank of Sector: 1  
 ITA Industry Code: GIE  
 HS Code: 84

Machines and equipment for all areas of industrial production are among the most sought after products. This is due to the country's industrial reconstruction, restructuring and modernization. There are good opportunities for U.S. firms in the area of heating equipment (boilers, valves, etc.) and power generation and distribution equipment. U.S. companies can also successfully compete by offering chemical technologies or equipment.

in Mil.USD	1996	1997	1998	1999 Predicted
Total Market Size	N/A	N/A	2,209.4	2,790.0
Total Local Production	N/A	N/A	1,091.7	1,550.0
Total Exports	763.4	821.1	877.6	860.0
Total Imports	2,408.2	1,790.3	1,995.3	2100.0
Imports from United States	220.6	170.6	182.7	200.0
Exchange Rate (Sk/\$)	29 Sk	32 Sk	35 Sk	40 Sk

The above statistics are unofficial estimates. Source of statistics: Statistical Office

Rank of Sector: 2  
 Name of Sector: Plastic and Articles Thereof  
 ITA Industry Code: PMR  
 HS Code: 39

Import of plastic and articles thereof increased since with new marketing methods other sectors started to use these products for packaging and other uses. Domestic production is focused on plastic materials. There is an opportunity for U.S. exporters and also for U.S. technologies and know-how.

in Mil.USD	1996	1997	1998	1999 Predicted
Total Market Size	N/A	N/A	578	740.0
Total Local Production	N/A	N/A	523	500.0
Total Exports	453.3	449.2	401.3	460.0
Total Imports	361.4	411.6	456.5	700.0
Imports from United States	3.9	5.4	5.2	12.0
Exchange Rate (Sk/\$)	29 Sk	32 Sk	35 Sk	40 Sk

The above statistics are unofficial estimates. Source of statistics:  
Statistical Office

Rank of Sector: 3  
Name of Sector: Organic chemicals  
ITA Industry Sector: CHM  
HS Code: 29

Organic chemicals are the most sought-after products from the chemical industry. Their consumption is increasing steadily. Slovakia has traditionally been a producer of chemicals, but U.S. chemicals have a strong position in the Slovak market. U.S. companies can also successfully compete by offering chemical technologies or equipment.

in Mil.USD	1996	1997	1998	1999
Predicted				
Total Market Size	N/A	N/A	1,044.6	1,160.0
Total Local Production	N/A	N/A	1,068.6	1,200.0
Total Exports	293.8	304.2	270.9	300.0
Total Imports	222.7	260.4	246.9	260.0
Imports from United States	8.6	12.3	16.2	20.0
Exchange Rate (Sk/\$)	29 Sk	32 Sk	35 Sk	40 Sk

The above statistics are unofficial estimates. Source of statistics:  
Statistical Office

Rank of Sector: 4  
Name of Sector: Consumer Electronic  
ITA Industry Code: CEL  
HS Code: 85

There are few local producers of consumer electronics, such as radios, VCRs or audio-visual equipment (with the exception of locally assembled television sets), and there is demand building for all types of consumer electronics as personal income grows, particularly in the larger cities.

in Mil.USD	1996	1997	1998	1999
Predicted				
Total Market Size	N/A	N/A	1,091.8	1,640.0
Total Local Production	N/A	N/A	496.9	550.0
Total Exports	476.3	707.6	837.4	860.0
Total Imports	845.6	1238.1	1,432.3	1950.0
Imports from United States	58.8	72.5	66.7	70.0
Exchange Rate (Sk/\$)	29 Sk	32 Sk	35 Sk	40 Sk

The above statistics are unofficial estimates. Source of statistics:  
Statistical Office

Rank of Sector: 5  
Name of Sector: Agriculture  
ITA Industry Code: AGC  
HS Code: NA

Niche markets with value-added products such as seeds for sowing (sunflower and corn seeds) or genetic materials may help U.S exports to Slovakia to grow. Import of feed nutrition ingredients along with SBM has been identified as one with good prospects for U.S. trade development in Slovakia. U.S. exporters and investors should focus on need of the most progressive farmers in Slovakia with skilled and experienced management, rather than investing in Slovak agricultural in general. Food additives, rice, pulses, nuts, dried fruits and whisky are major food products imported to Slovakia from the United States. In the near future no-till farming, along with Global Positioning System and later using Genetically Modified Organisms may become an important part of Slovak Agriculture.

in Mil.USD	1996	1997	1998	1999 Predicted
Total Market Size	NA	NA	2051.9	1,990.0
Total Local Production	NA	NA	1952.9	1,550.0
Total Exports	76.3	54.5	58.1	460.0
Total Imports	139.9	149.8	157.1	900.0
Imports from United States	5.2	5.5	9.5	12.0
Exchange Rate (Sk/\$)	29 Sk	32 Sk	35 Sk	40 Sk

The above statistics are unofficial estimates. Source of statistics:  
Statistical Office

Rank of Sector: 6  
Name of Sector: Drugs and Pharmaceutical products  
ITA Industry Code: DRG  
HS Code: 30

Demand for drugs and pharmaceutical products has grown in recent years, as domestic production is focused only on basic products. There is an opportunity for U.S. exporters of pharmaceutical products, because of financial problems of domestic producers.

in Mil.USD	1996	1997	1998	1999
Predicted				
Total Market Size	N/A	N/A	549.7	570.0
Total Local Production	N/A	N/A	320	350.0
Total Exports	113.4	111.2	91.6	100.0
Total Imports	325.3	348.1	321.3	320.0
Imports from United States	5.8	9.4	10.9	12.0
Exchange Rate (Sk/\$)	29 Sk	32 Sk	35 Sk	40 Sk

The above statistics are unofficial estimates. Source of statistics:  
Statistical Office

Rank of Sector: 7  
Name of Sector: Optical, Photo and Measuring Equipment  
ITA Industry Code: OPT  
HS Code: 90

Optical, photo and measuring equipment consumption has increased, but has become increasingly focused on "high tech" products. Slovak production has stagnated and most equipment is imported. New entrants will face strong competition from the same international competitors they see elsewhere. Even though the statistics show a decrease in imports from the United States, this market is growing. The difference is caused by the declining value of the Slovak Crown.

in Mil.USD	1996	1997	1998	1999 Predicted
Total Market Size	N/A	N/A	419.6	420.0
Total Local Production	N/A	N/A	191.4	200.0
Total Exports	107.2	116.9	90.7	100.0
Total Imports	315.3	307.4	318.9	320.0
Imports from United States	29.4	36.8	34.4	35.0
Exchange Rate (Sk/\$)	29 Sk	32 Sk	35 Sk	40 Sk

The above statistics are unofficial estimates. Source of statistics:  
Statistical Office

## VI. TRADE REGULATIONS AND STANDARDS

### A. Trade Barriers

There is no official policy for support of national products, but the Government is sensitive to the concerns of local producers whose existence is threatened by the pace of economic reform and the emergence of efficient competitors. A 7% import surcharge is in effect, but will decrease to 5% effective January 1, 2000, and to 3% effective July 1, 2000. It is to be phased out before January 1, 2001. That said, Slovakia has a history of implementing surcharges at short notice. The surcharge applies to some 80% of Slovakia's imports. A major exception of interest to U.S. exporters is for pharmaceutical products and associated materials.

Some foreign companies find the extraordinarily complex product certification requirement far more bothersome than the surcharge. Most products now must have an approval certificate stating that they meet Slovak product standards before the product can be cleared through Customs and allowed to enter Slovakia. Please see the section on product standards, below.

### B. Customs Valuation

Slovakia is a member of the WTO and is bound by the GATT Agreement on Implementation of Article VII. Customs valuation is based on the this agreement and the rules appear to provide a uniform and neutral system of valuation. Under Slovak legislation, customs valuation is specified by articles 20, 21, 22 and 28 of law No.618/1992 Coll. and is seemingly compatible with U.S. law.

### C. Import Licenses

Import licenses are governed by the 1991 decree of the former Czechoslovak Ministry of Foreign Trade, which remains valid under Slovak law. The decree divides commodity items into "general" and "specific" categories. For most of the approximately 100 groups of items in the "general" category, obtaining a license is a formality. In the remaining ten percent of cases (in which a favorable decision of the Ministry of Economy is required), obtaining a license might be more difficult, for reasons related to environmental concerns, quotas, etc.

Items in the "specific" category fall into three groups: pharmaceuticals, weapons, and Wasenaar Agreement items. A favorable decision from the Ministry of Economy is required. Among its criteria for decision, the Ministry includes consideration of environmental and health factors as well as the impact on domestic producers.

### D. Export Controls

Slovak export restrictions are placed on four groups of sensitive goods. These include (a) Wasenaar Agreement goods; (b) "Australia group" items including certain chemicals, biological materials and technologies; (c) Nuclear Suppliers Group items; and (d) missile technology. Most technology can be exported to Slovakia without export licenses. Some items still require licenses from the Bureau of Export Administration (Department of Commerce) and the Department of State.

### E. Import/Export Documentation

Slovakia's documentation requirements are harmonized with EU standards and trade documentation is similar to that of EU countries. Export and Import Licenses are defined by Decree No.315/1993 Coll. of the Ministry of Economy. The invoice is considered part of the Customs declaration. Automatic import licenses serve as records and are utilized as an information source. They are issued for specified sensitive goods and for an explicitly stipulated date. The purpose is said to preclude items not corresponding to Slovak ecological norms.

The Ministry of Economy is responsible for import quotas. The Ministry records and issues import licenses for a definite quantity of goods within a specified time period. Import quotas are of a global and non-preferential nature.

Non-automatic export licenses prevent export of strategic articles at the expense of home consumption (e.g., petrol), and ensure that the price level of domestic products is not disrupted and that tolerable export volumes are not exceeded. Non-automatic export licenses are issued for definite export quotas.

Imports of textiles and clothing require a certificate of origin. If the lower MFN duty rate is to apply, evidence of origin on the basis of shipping documents, invoices, business correspondence or other suitable documents is required. Certificates should display numbers, marks, value and weight of the merchandise. They must be issued or certified by authorized U.S. Chambers of Commerce for U.S.-origin products. Slovak importers must have the original certificates at the time the shipment arrives at Slovak customs.

#### F. Temporary Entry

There are two temporary entry regimes defined by the Commercial Code: (a) entirely duty free imports and (b) partly duty free imports. These regimes apply to goods such as trade samples, publications, tools, devices for professional education, and promotion of tourism.

Slovakia is a member of the CARNET ATA and CARNET TIR conventions. The Slovak Chamber of Commerce and Industry is the national guarantee organization and executive body for CARNET ATA. Cesmad Slovakia (Czech and Slovak Association for International Automobile Transportation) has the same responsibilities for CARNET TIR.

Imports of raw materials or components for the purpose of final production are free from import tariffs if the products are to be exported. Temporary entry of technologies and equipment allows for import tariff reduction as defined by the Temporary Use regime. The tariffs are reduced to 3% from the normal import duty and must be paid upon re-export.

#### G. Labeling/Marking Requirements

Slovakia introduced its own system of labeling in 1995, replacing the old Czechoslovak system. Under a 1995 State Language Law, companies are required to mark contents of domestically-produced or imported goods, product manuals, product guarantees, and other consumer-related information in Slovak.

#### H. Prohibited Imports

Import of some commodities and from certain countries are subject to regulation, such as monitoring procedures, voluntary restraint agreements, import declarations and certificate of origin requirements.

#### I. Standards

Slovak standards legislation closely follows EU legislation. The Slovak Office of Standards, Metrology and Testing (OSMT) is the responsible office for compulsory and voluntary testing of products at 20 testing centers. Testing is compulsory for products in the "regulated" sphere (defined as those which may pose threats to health, life, safety, and the environment), which consists mainly of foodstuffs, kitchen devices, medicines, electrical equipment, engineering products, agricultural machinery, plastics, paints, polishes, cosmetics, and sporting goods. Voluntary testing may be done at the request of the producer or importer wishing to obtain a certificate. Slovak companies are increasingly adopting ISO 9000 certification in both the production and service sectors.

If a product has a valid CB (Certification Body) certificate issued at a U.S. testing center, or a CCA (CENELEC Certification Agreement) issued at an EU testing center, the OSMT can issue a Slovak certificate within 15 days. If products do not have CB or CCA certificates, then they must be tested and certified in one of the 20 National Testing Centers, each specializing in a different group of products. The OSMT provides information about the certification process, and CS Bratislava can help U.S. companies get started on this time-consuming process.

#### J. Free Trade Zones/Warehouses

There are both public and private bonded customs warehouses in Slovakia. Any importer observing warehouse regulations can use public customs warehouses. They are usually located near the customs office and operated by the Government or by regional organizations. Private customs warehouses are generally used only by their owners.

#### K. Special Import Provisions

The import of textiles is limited according to Uruguay Round negotiations. Slovakia's Ministry of Agriculture places restrictions on agricultural products. Protection of the domestic market is achieved through customs, non-tariff and license policies conforming to GATT and IMF regulations.

#### L. Membership in Free Trade Arrangements

Slovakia is a member of the following free trade agreements:

- Association Treaty with the European Union (March 1, 1992)
- EFTA (European Free Trade Agreement, July 1, 1992 and December 1, 1992)
- CEFTA (Central European Free Trade Agreement, March 1, 1993)

### VII. INVESTMENT CLIMATE

#### A. Openness to Foreign Investment

All governments since 1989 have expressed openness to foreign investment, and there is no formal screening process. The government elected in late 1994, however, had greater reservations in practice than its predecessor, and some members of the governing coalition expressed open concerns about foreign ownership of Slovak companies. In general, there was an unwritten preference for protecting Slovak domestic entrepreneurs and for restricting sales of privatized state property to foreign buyers. This policy, which was never institutionalized, appears to have reversed by the coalition government that took power in October 1998. There is no discrimination against existing foreign investments and the Dzurinda government appears serious about doing more to attract foreign investors. There are no preferential export or import policies affecting foreign investors.

Visitors to Slovakia staying over 30 days are required to obtain residence permits prior to entering Slovakia. Please contact the Embassy of the Slovak Republic in Washington, D.C. (phone: 202-965-

5160, extension 3) or the nearest Slovak Embassy or Consulate for the specific requirements necessary to obtain a residence permit. The law can cause delays of several months or more, and considerable extra effort for long-term residents in Slovakia.

The Slovak Government has apparently decided to revamp its legal and control framework for accepting direct foreign investments. A Government declaration in June 1998 says that the Government wants to complete the privatization process and to transfer shares owned by the Government and the National Property Fund (NPF) rapidly to private owners. The Government says it wants to promote active participation of foreign investors in the privatization process, based on transparent and foreseeable regulations and rules. According to the declaration, the Government stated that its policy concerning direct foreign investments would be fully in harmony with the principles of transparency, be non-discriminatory, and have the national treatment obligation included in Organization for Economic Cooperation and Development (OECD) documents. The Slovak Government says it welcomes negotiations to create a multilateral framework for foreign investments with a high degree of liberalization and protection of investment flows, including effective procedures for resolving conflicts. At the beginning of June 1998, the Government passed a resolution about tax exemptions for foreign investors who accomplish specific criteria. Tax holidays have been offered that will forgive up to 75% of all taxes due for five years if a foreigner invests more than 6 million USD in a "strategic" industry and if that company's export grow by at least 25% a year over five year period.

#### B. Conversion and Transfer Policies

The Slovak crown (SK, or koruna) is fully convertible for current account transactions. On October 1, 1998, the Slovak Central Bank abandoned the peg (a basket consisting of 60% Deutschmarks and 40% USD) and permitted the crown to float. Since then, the crown has depreciated about 20% against the former parity. As of August 1999, the exchange rate was approximately 41 SK to one dollar.

There are no difficulties in converting or transferring funds associated with an investment into a freely convertible currency. Very large transactions (over \$50 million) may require advance notice to the National Bank of Slovakia (NBS). Foreign exchange operations are governed by the Foreign Exchange Act, amended in September 1995.

Customs authorities must be notified if more than 150,000 Slovak crowns (\$3,750) is being exported or imported, or if more than 20,000 crowns (\$500) is being sent in the mail.

#### C. Expropriation and Compensation

There have been no expropriation cases in Slovakia, nor are any foreseen. The constitution and the law, including the Commercial and Civil Codes, permit expropriation only in exceptional cases of public interest, and compensation must be provided. The law also provides for an appeal process.

#### D. Dispute Settlement

There have been no major investment disputes in Slovakia. Slovakia is not a member of the International Center for the Settlement of Investment Disputes (Washington Convention). Slovakia is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

The legal system consists of 43 district courts, four regional courts, and a Supreme Court, all under the jurisdiction of the Ministry of Justice. In addition, there is a Constitutional Court independent of government control. Judges are appointed for an initial four-year term and are subsequently either appointed for life or removed from office. Once appointed for life, judges may be removed only for cause. (However, the Ministry of Justice controls promotions, assignments, budgets, and various privileges.) Constitutional Court judges are appointed by the President to a single, seven-year term. District courts are courts of first instance in most criminal cases and minor civil cases. Regional courts are courts of appeal, but also of first instance in major criminal and civil cases. The Supreme Court in Bratislava is the court of final review except for constitutional cases, which are under the exclusive jurisdiction of the Constitutional Court in Kosice.

Property and contractual rights are enforced within the legal structure, but decisions may take years, thus limiting the attractiveness of the system for dispute resolution. Slovak courts recognize and enforce foreign judgments, subject to the same delays. The Commercial Code seems consistently applied. A bankruptcy law exists but is not very effective. A number of bankruptcy cases have been filed, but few have been resolved. The law discriminates against foreign creditors, and operates on the principle of one vote per creditor, regardless of the size of claim. Requirements for debtor-initiated bankruptcies are unrealistic.

Slovakia accepts binding international arbitration. The Slovak Chamber of Commerce and Industry has a Court of Arbitration for alternative dispute resolution; nearly all cases involve disputes between Slovak and foreign parties. Slovak domestic companies generally do not make use of arbitration clauses in contracts.

There are secured interests in immovable property, normally secured by physical possession of or conveyed title to the property in question until the loan is repaid. There is not presently a system of registering security interests in moveable property. No mortgage law specifying the procedure for a foreclosure exists and the inability to evict a residential tenant without providing alternative housing makes lending on the security of residential property impractical. The Government is concerned about the general lack of long-term financing and is working on the issues. The National Bank of Slovakia completed a study of mortgage instruments last year and the situation may improve in the medium term.

#### E. Political Violence

There have been no reports of politically-motivated damage to property, and civil disturbances are rare. However, there is widespread press speculation that elements of the security services were involved in the death of an individual close to a self-proclaimed witness to the

kidnapping of the President's son in August 1995. There has been no violence directed toward foreign-owned companies. While not aimed at Americans, organized crime has been on the rise in Slovakia and wars between rival organizations has resulted in three fatal shootings at or near hotels or bars in Bratislava over the past two years.

#### F. Performance Requirements/Incentives

There are no formal performance requirements for establishing, maintaining, or expanding foreign investments. However, there may be such requirements as conditions of specific negotiations for property involved in large-scale privatization by direct sale or public auction.

Slovakia maintains investment incentives in the form of customs relief for certain investment goods, and tax holidays. The Government is empowered to offer a five-year tax holiday (for up to 75% of taxes) if an investor puts more than SK 200 million (roughly \$6.6 million) into a "strategic industry". This would also carry a requirement that the company increase its Slovak exports by 25% annually during the five years.

#### G. Right to Private Ownership and Establishment

Foreign and domestic private entities are entitled to establish and own business enterprises and engage in remunerative activity in Slovakia. Businesses are able to contract directly with foreign entities. All Slovak obligations of liquidated companies must be paid before any remaining funds are transferred out of Slovakia.

#### H. Protection of Property Rights

Protection of property rights fall under the jurisdiction of two agencies. The Industrial Property Office has responsibility for most areas, while the Ministry of Culture is responsible for copyrights (including software). Slovakia is a founding member of the World Trade Organization (WTO) and succeeded to membership in the World Intellectual Property Organization (WIPO) upon the dissolution of Czechoslovakia. Slovakia adheres to major intellectual property agreements including the Bern Convention for Protection of Literary and Artistic Works, the Paris Convention for Protection of Industrial Property, and numerous other international agreements on design classification, registration of goods, appellations of origin, patents, etc. Patents, copyrights, trademarks and service marks, trade secrets, and semiconductor chip design appear adequately protected under Slovak law and practice. Slovakia has a membership application pending with the European Patent Organization, and in general aims to uphold European standards for protection of intellectual property.

The Foreign Exchange Act stipulates conditions for foreign ownership of real estate. Only Slovak legal persons may own real estate; foreign persons or business entities may own real estate in Slovakia through establishment of a legally-registered Slovak company. Exceptions to this rule apply to property acquired through restitution or large-scale privatization.

#### I. Regulatory System: Laws and Procedures

The Commercial Code and the 1991 Economic Competition Act govern competition policy in Slovakia, which generally follows the European Union pattern. The Anti-Monopoly Office is responsible for preventing noncompetitive situations. In early 1995 the chairman of the Anti-Monopoly Office was replaced involuntarily following a reported decision to block the acquisition of a gasoline-distribution chain by a leading Slovak refinery. The acquisition was subsequently permitted, prompting some to question the independence of the Anti-Monopoly Office.

#### J. Bilateral Investment Agreements

Slovakia has the following bilateral investment agreements: Austria, Belgium, Bulgaria, Canada, China, Czech Republic, Denmark, Finland, France, Germany, Holland, Hungary, Indonesia, Luxembourg, Netherlands, Norway, Poland, Romania, Slovenia, Spain, Sweden, Switzerland, Tajikistan, Ukraine, United Kingdom, United States.

Similar agreements are pending or under discussion with: Argentina, Australia, Azerbaijan, Croatia, Cyprus, Egypt, Greece, India, Iran, Israel, Italy, Kazakhstan, Korea, Latvia, Libya, Lithuania, Russia, Peru, Portugal, Singapore, South Africa, Spain, Thailand, Turkmenistan, Uzbekistan, Vietnam, Yugoslavia.

#### K. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC), located in Washington, DC, has been active in Slovakia. OPIC offers American investors insurance against political risk, expropriation of assets, damages due to political violence, and currency inconvertibility. OPIC can provide specialized insurance coverage for certain contracting, exporting, licensing, and leasing transactions undertaken by U.S. investors in Slovakia.

Slovakia is a member of the Multilateral Investment Guarantee Agency (MIGA).

#### L. Labor

Slovakia has a well-educated and skilled labor force of more than two million. Literacy in Slovakia is universal, and most workers are well-educated and technically skilled. Overstaffing is still typical at many Slovak companies, especially larger and state-owned enterprises. Many professionals and bureaucrats are relatively poorly paid by U.S. standards. Slovakia has a relative shortage of workers with foreign language and Western-style management skills, and salaries for such workers are correspondingly high. Foreign companies frequently praise the motivation and abilities of younger workers, who often have good language and computer skills and have traveled in the United States or Europe.

The workweek is standardized at 42.5 hours. The minimum wage is about \$90 per month, but almost all workers earn more. Strikes have been rare, and fewer than 75 percent of Slovak employees belong to unions. Trade unions form one leg of the so-called "Tripartite Arrangement," along with the government and employers' associations. The unions generally have been tolerant of the costs imposed on labor by economic

transformation, but a more aggressive union leadership has emerged that is more politically engaged and more active among its membership. This suggests that the unions may adopt a firmer line in the future.

Slovak social insurance is compulsory and includes a health allowance, unemployment insurance, and pension insurance. Employees pay 12% of their wages toward these costs, and employers contribute an additional 38% on behalf of each employee; self-employed persons pay all contributions themselves (about 49%). Slovakia is a member of the ILO and adheres to the ILO Convention Protecting Worker Rights.

The average monthly wage in 1998 was \$285. Nominal wages rose 9.6% and real wages 2.8% from 1997 to 1998, which was the slowest growth on both counts since 1993. Despite significant gains in real wages in the last several years, real wages are still 8.2% below 1989 levels.

#### M. Foreign Trade Zones/Free Ports

There is a 12-hectare free trade zone in Kosice. Plans exist for an expansion of the zone and for intensifying its cooperation with its Hungarian and Ukrainian neighbors. A second, larger free trade zone in Bratislava is also being planned. The existing zone is not a significant factor in the Slovak economy and has not played an important role in attracting foreign investment.

#### N. Capital Outflow Policy

Export of capital and outward direct investment requires permission from the National Bank. This in turn is usually dependent on the existence of bilateral investment treaties with the intended recipient country, and upon the perceived possibility of capital repatriation from the investment. Since 1995, Slovak investors have invested about \$180,000 in several entities in the United States.

#### O. Major Foreign Investors

Foreign direct investment in 1998 reached USD 386.363 million. The largest investor was the Netherlands last year (USD 93.75 million), mainly thanks to investments by the brewery Heineken. Great Britain ranked second with FDI of USD 79.5 million, the United States, third, with almost the same volume. The largest single investor in 1998 was U.S. Steel, which put some USD 57 million into a joint venture with Slovak steel mill VSZ producing tin plate. Most of 1998 investment went into industrial production (76.3 percent); unlike in previous years, most of the investment flowed outside the capital to the East Slovakian districts of Presov and Kosice.

Cumulative FDI in Slovakia was USD 1.980 billion at the end of 1998. The largest investors were Germany (USD 412 million), followed by Austria (USD 369 million) and the USA (USD 275.5 million). Although FDI in 1998 was the largest inflow in Slovakia's history, Slovakia ranks way behind its Central European neighbors in FDI. FDI per capita as of December 31, 1998, was USD 844 in the Czech Republic, USD 1,902 in Hungary, USD 795.3 in Poland, and USD 1,300 in Slovenia, while in Slovakia it was only USD 435.8.

Important U.S. investors include USX, Philip Morris, Whirlpool, Emerson, Motorola, Citibank, and IBM. (Some American companies -- e.g., Pepsi-Cola and Coca-Cola -- are registered under foreign subsidiaries and thus do not appear as U.S. investments in Slovak statistics.) The American Chamber of Commerce in Slovakia was founded in October 1997 and has over 120 members.

## VIII. TRADE AND PROJECT FINANCING

### A. Brief Description of Banking System

The Banking Act provides for universal banking wherein commercial banks carry out investment banking and brokerage activities as well as traditional commercial transactions and lending, subject to the issuance of a license by the National Bank. This system is based on a European (rather than U.S.) model. The National Bank controls application requirements, minimum capital and reserve requirements, and bank supervision.

Foreign banks can be established either as representative offices or as full-fledged branches. Representative offices may offer advice and inform clients of services through the parent bank, but may not perform services such as opening accounts or lending. Branches may handle any transactions authorized by the parent bank. The law requires that all foreign banks agree to take over the assets and liabilities if the branch experiences financial problems, effectively guaranteeing the financial health of the branch. Thus far, foreign banks in Slovakia have concentrated on providing international payment services and services to Western clients. There has been relatively little lending by foreign banks to Slovak companies with the exception of some dominant Slovak firms.

By the middle of 1999, there were 37 banks operating in Slovakia; 10 Slovak banks, 14 banks with foreign capital participation, 2 branch offices of foreign banks and 10 representative offices of foreign banks. Most of the commercial banks are registered as joint-stock companies; only two are state-owned institutions. Most commercial banks have headquarters in Bratislava; a few are based in Zilina, Banska Bystrica or Kosice.

High interest rates and a lack of available financing for small and medium sized enterprises restrict the services most banks can provide for the market. EBRD loans and PHARE support loan program to the banking sector may help facilitate financing for small and medium-sized enterprises.

Most payments are made by credit transfer and collection. All transactions are processed in the same way, i.e. "large" as well as "small" payments. The system also processes check transactions. Processing and settlement of a credit transfer, from debiting the amount in the account of the payer in one bank to crediting the account of a payee at the other bank takes three days. In the case of a collection order, settlement proceeds only after a non-accounting collection call on the part of a payee and subsequent credit transfer by the bank of the payer, so the process may take up to five days.

## B. Foreign Exchange Controls Affecting Trade

The Slovak crown (koruna) is internally convertible, and is fully convertible for current account transactions. All hard currency payments are made against an invoice if the Slovak company has enough funds to cover the transaction.

## C. General Financing Availability

Normal commercial financing is possible in Slovakia but is difficult to obtain. American companies may wish to source financing from either Western banks outside of Slovakia or Western banks with offices in Slovakia. Large-scale project financing may be obtainable from multilateral lending institutions such as the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), European Investment Bank (EIB), Overseas Private Investment Corporation (OPIC), etc. Other methods of financing include venture capital firms (e.g., Renaissance and Advent) based in Prague that are expanding portfolios to Slovakia.

## D. How to Finance Exports/Methods of Payment

Slovakia has an Export Credit Insurance Corporation (SPE) which is licensed for the insurance of export credit contracts. SPE provides short, medium and long term coverage for Slovak exporters against commercial and political risk under the condition of at least 60 percent content of domestic production in the exported goods.

Methods of payment are similar to those in the West including payments in advance (including via Swift), letters of credit and bank guarantees.

## E. Types of Available Export Financing and Insurance

Financing and insurance of exports, investment, and development projects may be possible through U.S. Government agencies such as the Trade Development Agency (TDA), the Export-Import (EXIM) Bank, and the Overseas Private Investment Corporation (OPIC).

## F. Project Financing Available

Project financing is available, including lending from multilateral institutions. Sources include:

- the Slovak American Enterprise Fund (SAEF), a U.S. Government-funded program designed to promote the development of the Slovak private sector. The fund is used primarily for equity investments. Joint ventures with foreign companies are eligible but not required. The Fund has announced the formation of the Slovak Venture Capital Association (SLOVCA) to promote awareness of venture capital in Slovakia. The contact at SAEF is Ms. Iveta Griacova, telephone: 421-7-52731317; fax: 5273 1323, or their web site is [www.saef.sk](http://www.saef.sk).
- the European Investment Bank (EIB), which grants credits for protection of the environment, energy efficiency, travel and tourism industry. Projects specifically excluded from this financing include

heavy industry and other industrial branches such as textiles, consumer electronics, and automobile parts.

- Export-Import Bank of the United States, which grants short-term credits with repayment terms of 180 days and less, medium-term credits with repayment terms of 1 - 5 years and financed portion of less than or equal to \$10 million and long-term credits for capital goods and related services, repayment terms of greater than 7 years or financed portion of greater than \$10 million. Exim Bank also provides Letters of Interest for U.S. exporters. For more information please visit [www.exim.gov](http://www.exim.gov).

#### G. List of Banks with Correspondent U.S. Banking Arrangements

Ludova banka (through Volksbank of Vienna, Austria):

- Citibank, NY
- Chase Bank, NY
- Bank of New York, NY
- Bank of America, International, NY

Slovenska Kreditna banka:

- American Express Bank, NY
- Bank of New York, NY

Slovenska Sporitelna:

- American Express Bank, NY
- Bankers Trust, NY
- Bank of America, NY
- Citibank, NY
- First Union National Bank
- Bank of New York
- Philadelphia National Bank
- Chase Bank, NY

Tatra banka (through Tatra Raiffeisen, Austria):

- American Express Bank, NY
- Bankers Trust, NY

Vseobecna Uverova banka (VUB):

- Citibank, NY
- Chase Manhattan Bank, NY
- Bank of America, NY
- American Express Bank, NY
- Bankers Trust Company, NY

#### Subsidiaries of U.S. banks in Slovakia:

American Express Ltd.

C/o Tatra banka

Vajanskeho nabrezie 5

810 11 Bratislava 111, Slovak republic

telephone: (421/7) 6865 1202-35967 1111

fax: (421/7) 6865 1410324 760

Citibank (Slovakia) a.s.

Viedenska cesta 5 (Incheba bldg.)

852 51 Bratislava, Slovak Republic

telephone: (42/7) 68278 111  
fax: (42/7) 68278 499

## IX. BUSINESS TRAVEL

### A. Business Customs

Business practice and etiquette in the Slovak Republic is a cross between that of western Europe and the United States on the one hand, and eastern Europe and Russia on the other. Slovaks are generally well disposed towards Americans. While English as a business language is increasingly accepted in the Bratislava area, German is more common throughout the country. Russian is widely understood but may not always be welcomed. Many, but by no means all, Slovak companies have English speakers among their top managers; U.S. business representatives should be prepared to do business through interpreters and allow for the possibility of occasional misunderstandings.

Decision making in a company is often restricted to a very few, if not just one, person. Even relatively minor decisions may require the approval of a high level official. Appointments should be made well in advance with confirmations made prior to scheduled appointments.

Titles and positions (e.g., "Ing." for Engineer) are highly regarded and routinely appear on business cards.

Business people occasionally have difficulty in receiving replies to letter or fax correspondence. Often mail or faxes do not reach recipients in a timely manner. Business people are encouraged to follow up with correspondence to ensure contact with the intended recipients. As telecommunications standards remain well below those in the United States, calls or faxes may require repeated efforts.

Successful business in Slovakia generally requires the establishment of a good personal relationship and a feeling of mutual trust. Meetings with Slovak business representatives typically include a welcoming toast of an alcoholic beverage such as slivovica (plum brandy) or borovicka (similar to gin). General social conversation prior to business is the norm, and launching directly into business may impede the development of a good personal relationship with the Slovak business partner.

After initial meetings, written summaries of goals, objectives, and points of agreement or disagreement are encouraged to minimize misunderstandings between business parties.

### B. Travel Advisory and Visas

There have been no travel advisories issued for the Slovak Republic. Americans are allowed to enter the country for 30 days on a tourist passport without a visa. .

Individuals who wish to stay in Slovakia for longer than 30 days must submit an application for a long term stay permit (ziadost' o vydanie povolenia na dlhodobý pobyt) to the Embassy of the Slovak Republic, Consular section, 2201 Wisconsin Ave., NW, Suite 250, Washington D.C.

20007 (Tel: 202-965-5160 extension 3). Meeting the requirements of Slovak law to obtain a long term stay permit can take up to 60 days with health and police checks, among other things, needed to complete the process. Permits are granted for not more than one year with the possibility of repeated extension provided that an application for a renewal of the permit is submitted at least 14 days prior to the expiration of the valid permit. It is strongly recommended that American companies with foreign representatives contact the nearest Slovak embassy or consulate for further details.

### C. Holidays

The following holidays are observed in the Slovak Republic from January 1, 2000 to December 31, 2000:

January 1	Saturday	Slovak Republic Day New Year(s Day
January 6	Thursday	Epiphany
April 21	Friday	Good Friday
April 24	Monday	Easter Monday
May 1	Monday	Labor Day
May 8	Monday	Slovak National Day
July 5	Wednesday	St.Cyril & St.Methodius Day
August 29	Tuesday	Slovak National Uprising
September 1	Friday	Slovak Constitution Day
September 15	Friday	The Day of the Virgin Mary of the Seven Sorrows
November 1	Wednesday	All Saints Day
December 24	Sunday	Christmas Eve
December 25	Monday	Christmas Day
December 26	Tuesday	St. Stephen's Day

### D. Business Infrastructure

Transportation: Slovakia's transportation system is well organized if somewhat old. Bratislava's International Airport serves flights to Prague, Tunis, Tel Aviv, Kuwait and Larnaka. Unfortunately, there is no Slovak carrier offering flights to the other major cities in Slovakia. To fly to Kosice, travelers use Austrian Airlines and Tirolean Airlines departing from Vienna's Schwechat airport. . Most travelers prefer to use Schwechat and take the airport bus or automobile to Bratislava. Overland travel by train is reliable. Travel by automobile is also possible, although -- due to many narrow two-lane roads -- travelers often find that car travel can take longer than expected.

Slovakia imposes a "road user fee" for certain roads. The fee applies to all Slovaks and foreigners. The yearly fee varies with engine size. Engine sizes that are 1,600 cubic centimeters or less cost 400 Slovak crowns (approximately USD 10). Engines over 1,600 cc cost 800SK (approximately USD 20). Trucks and buses from 2,000 to 4,000 SK, depending on the weight (USD 50 - 100). Stickers can be purchased at border crossings, gas stations and post offices. If use of a rental car is planned, try to rent a vehicle that already has a sticker showing that the road fee has been paid.

Taxi service is readily available. Drivers seldom speak English. Potential difficulties may arise from the confusing system of multiple

prices (based on distance, location, and whether the traveler is Slovak or foreign). Foreigners should confirm a price in advance. It is advisable to call for taxis rather than catch them on the street, as radio-service companies are quite reliable. All major cities have trams and bus services that are convenient and inexpensive.

Telecommunications: Slovakia is upgrading its telecommunication system. Cellular GSM telephone service is commonly in use. The Slovak PTT provides ATM and ISDN services. Telex services are available, but not commonly used. Other data communication services (e-mail, Internet) are quickly expanding throughout the country as another form of communication.

Accommodations and food: Business accommodations are available but limited. Hotel standards are generally lower than those of western Europe and the United States, though prices may be high, especially in major cities. It is legal and not uncommon for foreigners to be charged a higher rate than Slovaks. The food is varied and of good quality, mixing Slovak, Austrian and Hungarian styles. Food prices in restaurants are generally not expensive, averaging about \$5-15 per meal. Travelers to Slovakia should note that while major credit cards are increasingly accepted at major hotels and restaurants in Bratislava, acceptance lags in other parts of the country.

## X. APPENDIX

### A. COUNTRY DATA

The source of this data is from the Statistical Office of the Slovak Republic:

Population:	5.4 million
Population growth rate:	0.4 percent
Religions:	Roman Catholic - 60 percent
	Slovak Evangelical - 6 percent
	Greek Catholic - 3 percent
	Other - 3 percent
Government System:	Parliamentary democracy
Language:	Slovak
Workweek:	42.5 hours

### B. ECONOMY

	1995	1996	1997	1998
GDP (USD billions)	17.4	18.8	19.4	20.4
GDP Growth Rate	6.8	6.9	6.5	4.4
GDP per capita (USD)	3,234	3,495	3,669	3,779
Government Spending (%GDP)	32.02	29.44	26.32	25.76
Inflation (%)	7.2	5.4	6.4	5.6
Unemployment (%)	11.7	12.0	13.5	13.8
Foreign Exchange Res. (USD billions)	3.418	3.473	3.285	2.922
Average Exchange Rate (SKK/USD)	29.7	30.7	33.6	35.2
Foreign Debt				

(USD billions)	5.623	7.914	10.696	11.902
Debt Service Ratio (%)	N.A.	N.A.	N.A.	N.A.
U.S. Assistance				
(USD millions)*	29,654	17,346	13,861	10,000

\* Total assistance since 1990 = USD 182,892,000

#### C. TRADE

	1995	1996	1997	1998
TOTAL EXPORTS	8,556	8,814	8,256	10,679
TOTAL IMPORTS	8,495	11,052	10,268	12,794
U.S. EXPORTS	360,348	376,579		
U.S. IMPORTS			157,268	151,035

In USD million

#### D. INVESTMENT

Foreign Investment by Country of Origin (as of December 31, 1998)

	Share %	Million \$
1. Germany	20.8	411.9
2. Austria	18.7	369.3
3. USA	13.9	275.6
4. The Netherlands	13.3	264.2
5. Great Britain	9.2	181.8

Foreign Investment by Economic Sector (as of December 31, 1998)

	Share %	Million \$
1. Industrial production	49.2	974.4
2. Finance and Insurance	22.1	437.5
3. Wholesale and Retail Trade	17.6	349.4
4. Transport, Storage and Communications	3.3	65.3
5. Real estate	2.6	51.1

#### E. UNITED STATES AND SLOVAK CONTACTS

##### 1. Slovak Government Offices

Government of the Slovak Republic

Nam. slobody 1

813 70 Bratislava

Tel.:(421/7)5729 5111

Fax:(421/7)397 595

www.government.gov.sk

Prime Minister: Mikulas Dzurinda

Deputy Prime Minister: Ivan Miklos

Ministry for Administration and Privatization of National Property

Drienova 24

820 09 Bratislava

Tel.:(421/7) 4829 7111

Fax:(421/7) 4333 3335

www.privatiz.gov.sk  
Minister: Maria Machova  
State Secretary: Vladimir Drozda

Ministry of Agriculture  
Dobrovicova 12  
812 66 Bratislava  
Tel.:(421/7)5926 6111, 322150, 361571  
Fax:(421/7)361 834  
Minister: Pavel Koncos  
State Secretaries: Viktor Meszaros, Ivan Rosival

Ministry of Construction and Public Works  
Spitalska 8  
816 44 Bratislava  
Tel.:(421/7) 5975 3710  
Fax:(421/7) 367 054  
Minister: Istvan Harna  
State Secretaries: Roman Sipos, Peter Mattos

Ministry of the Environment  
Nam. L. Stura 1  
812 35 Bratislava  
Tel.:(421/7) 5956 2306  
Fax:(421/7) 5956 2438  
Minister: Laszlo Miklos  
State Secretary: Zdenka Tothova

Ministry of Economy  
Mierova 19  
827 15 Bratislava  
Tel.:(421/7)4333 2041  
Fax:(421/7)4342 3949  
www.economy.gov.sk  
Minister: Ludovit Cernak  
State Secretaries: Peter Brno, Jan Sabol

Ministry of Finance  
Stefanovicova 5  
811 05 Bratislava  
Tel.:(421/7)5958 2201, 5958 2247  
Fax:(421/7)393 531  
www.finance.gov.sk  
Minister: Brigita Schmognerova  
State Secretaries: Viliam Vaskovic, Vladimir Podstransky

Ministry of Foreign Affairs  
Hlboka cesta 2  
833 36 Bratislava  
Tel.:(421/7)5978 3001, 5978 3002  
Fax:(421/7)5978 3009  
www.foreign.gov.sk  
Minister: Eduard Kukan  
State Secretaries: Jan Figel, Jaroslav Chlebo

Ministry of Transportation, Posts and Telecommunications  
Nam. slobody 6

810 05 Bratislava  
 Tel.:(421/7)5273 1438, 5557 7616  
 Fax:(421/7)5273 1440  
[www.telecom.gov.sk](http://www.telecom.gov.sk)  
 Minister: Gabriel Palacka  
 State Secretaries: Frantisek Kurej, Ludovit Machacek

National Property Fund  
 Drienova 27  
 821 01 Bratislava  
 Tel.:(421/7)4827 1474  
 Fax:(421/7)4827 1484  
 President: Ludovit Kanik

## 2. Other Organizations Useful to American Business

Embassy of the United States of America  
 Hviezdoslavovo nam. 5  
 811 02 Bratislava  
 Tel.:(421/7)5443 0861, 5443 3338  
 Fax:(421/7)5443 0096  
[www.usis.sk](http://www.usis.sk)  
 Economic and Commercial Officer: Mark Bocchetti

Commercial Service, American Embassy  
 Grosslingova 35  
 811 09 Bratislava  
 Tel.:(421/7)5296-1079  
 Fax:(421/7)5296-1085  
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United States Agency for International Development (USAID)  
 Panska 33  
 811 02 Bratislava  
 Tel.:(421/7)5443 1588  
 Fax:(421/7)5443 4711  
 Representative in Slovakia: Paula Goddard

American Chamber of Commerce in the Slovak Republic  
 Hotel Danube, Rybne nam. 1  
 813 38 Bratislava  
 Tel.:(421/7)5934 0508  
 Fax:(421/7)5934 0556  
[www.amcham.sk](http://www.amcham.sk)  
 Executive Director: Leighton Klevana

Slovak American Enterprise Fund  
 Obchodna 58, P.O.Box 100  
 810 00 Bratislava 1  
 Tel.:(421/7)5273 1317  
 Fax:(421/7)5273 1323  
[www.saef.sk](http://www.saef.sk)  
 President: Iveta Griacova

Slovak Office of Standards, Metrology and Testing  
 Stefanovicova 3, P.O.Box 73  
 810 05 Bratislava

Tel.:(421/7)5249 1085  
 Fax:(421/7)5249 1050  
[www.normoff.gov.sk](http://www.normoff.gov.sk)  
 Director: Dusan Podhorsky

Slovak National Agency for Foreign Investment and Development  
 Sladkovicova 7  
 811 06 Bratislava  
 Tel.:(421/7)5443 5175, 5443 5000  
 Fax:(421/7)5443 5022  
[www.snazir.sk](http://www.snazir.sk)  
 Investment Operations Director: Beata Polackova

National Agency for the Development of Small and Medium Enterprises  
 Nevadzova 5  
 821 01 Bratislava  
 Tel.:(421/7)4332 7563  
 Fax:(421/7)4342 2434  
[www.nadsme.sk](http://www.nadsme.sk)  
 Director: Jozef Majtan

Slovak Chamber of Commerce and Industry (SOPK)  
 Gorkeho 9  
 816 03 Bratislava  
 Tel.:(421/7)5413 1228, 5443 3291  
 Fax:(421/7)5443 0754  
[www.sopk.sk](http://www.sopk.sk)  
 Chairman: Peter Mihok

M.E.S.A. 10 (market research)  
 Hviezdoslavovo nam. 17  
 811 02 Bratislava  
 Tel.:(421/7)5443 5328, 5443 4009  
 Fax:(421/7)5443 2189  
[www.mesa10.sk](http://www.mesa10.sk)  
 Executive Director: Viktor Niznansky

FOCUS (Center for Social and Market Analysis)  
 Grosslingova 37  
 811 09 Bratislava  
 Tel.:(421/7)5293 1366, 5293 1367  
 Fax:(421/7)5293 1378  
[www.focus.sk](http://www.focus.sk)  
 Director: Ivan Dianiska

National Bank of Slovakia  
 Sturova 2  
 813 25 Bratislava  
 Tel.:(421/7)5953 111, 5953 1112  
 Fax:(421/7)5413 1167  
[www.nbs.sk](http://www.nbs.sk)  
 Governor: Marian Jusko

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 Vajanskeho nabrezie 5  
 810 11 Bratislava  
 Tel.:(421/7)5967 1111

Fax:(421/7)5967 1410  
 www.tatrabanka.sk  
 General Director: Rainer Francz

Vseobecna uverova banka (General Credit Bank)  
 Mlynske Nivy 1  
 820 05 Bratislava  
 Tel.:(421/7)5441 0510  
 Fax:(421/7)5441 0600  
 www.vub.sk  
 President: Ladislav Vaskovic

Statistical Office of the Slovak Republic  
 Mileticova 3  
 824 67 Bratislava  
 Tel.:(421/7)5022 5802  
 Fax:(421/7)5022 4587  
 Director: Stefan Condik

Customs Directorate of the Slovak Republic  
 Mierova 23  
 821 05 Bratislava  
 Tel:(421/7)4329 3281  
 Fax:(421/7)4329 3281  
 Director: Milan Jasenovec

#### F. TRADE EVENT SCHEDULE

Major trade events listed below are those published for 1999.  
 Interested parties are encouraged to contact the Slovak Chamber of  
 Commerce and Industry or the Commercial Service of the American Embassy  
 in Bratislava (listed in Appendix E) for 1999 dates and exact  
 locations.

SECTOR/DATE	CITY	NAME
Agriculture		
May	Zilina	Agro
Aug	Nitra	Agrokomplex
Automobiles & Transport		
May	Zilina	Automarket
May	Bratislava	Benzinka
Sept	Nitra	Autosalon Nitra
Sept	Bratislava	Autosalon
Chemistry (rubber industry, plastics)		
March	Trencin	Expodrogeria
May	Puchov	Interguma
Jun	Bratislava	Incheba
Nov	Nitra	Chemplast/Glasscer

Construction

May	Bratislava	Coneco
Aug	Trencin	Stavbau
Sept	Kosice	Interstav
Oct	Nitra	Conexpo Slovakia

## Consumer Goods

Jun	Kosice	Keramosklo
Sept	Bratislava	Dunajsky veltrh

## Ecology

Sep	Zilina	Komunal
Apr	Nitra	Enviro
Jun	Trencin	Aqua
Nov	Poprad	Ekopack

## Electronics, telecommunications, computer technologies

Jun	Bratislava	Cofax
Sept	Zilina	TIS
Sept	Bratislava	CA SOFT

## Food and food industry

Jun	B.Bystrica	Pivinex
Nov	Zilina	Potraviny

## Furniture, apartment accessories

Mar	Nitra	Nabytok a byvanie
May	Kosica	Nabytok
Nov	Bratislava	Mod Dom

## Gastronomy, hotels

Apr	Nitra	Gastra
Oct	Banska Bystrica	Hotel
Oct	Kosice	Gastro

## Health services and pharmacy

May	Bratislava	Humanotech
Oct	Zilina	Slovakodent
Oct	Bratislava	Slovmedica

## Mechanical engineering

May	Nitra	Medzinarodny
	strojarsky veltrh	
Oct	Kosice	Strojexpo Cassovia
Oct	Nitra	Lignumexpo
Oct	Bratislava	Danube Surface

## Security technology

Apr	Bratislava	Ozamo
Sep	Bratislava	Krimipol
Oct	Bratislava	Security

## Sports equipment

Mar	Bratislava	Intersport
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## Textiles, clothing, cosmetics

Mar	Bratislava	Moda Bratislava
Mar	Trencin	Trencin mesto mody
Jun	Bratislava	Interbeauty
Sept	Trencin	Trencin Mesto Mody

## Tourism, travel agencies

Jan	Bratislava	ITF Slovakia
May	Banska Bystrica	Dovolenka

## Wood processing industry and machinery

Apr	Trencin	Woodtech
May	Zilina	Expolignum
Sep	Bratislava	Drevoexpo
Oct	Nitra	Lignumexpo-sosp

## Others

Jan	Trencin	Marketing reklama propagacia
Jun	Bratislava	Interekotechnika (environment protection equipment & technologies)
Sept	B.Bystrica	Finex (banks and finance, equipment, furniture, soft/hardware)

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